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MONTANA MEDICAL LEGAL PANEL
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 1999 AND 1998

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MONTANA MEDICAL LEGAL PANEL

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 1999 AND 1998**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

June 2000

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Medical-Legal Panel, Montana Supreme Court, for the year ended December 31, 1999.

Henry Fenton, Certified Public Accountant, conducted the audit under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The Panel's written response to the report is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.

Scott A. Seacat
Legislative Auditor

00C-01

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MONTANA MEDICAL LEGAL PANEL

ADMINISTRATIVE OFFICIALS

G. Brian Zins

Director

Lavonne J. Arnold

Assistant Director

MONTANA MEDICAL LEGAL PANEL
December 31, 1999

SUMMARY OF RECOMMENDATIONS

There were no recommendations for the year ended December 31, 1999.

HENRY FENTON
CERTIFIED PUBLIC ACCOUNTANT

1052 NORTH RODNEY STREET
HELENA, MONTANA 59601-3578

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INDEPENDENT AUDITOR'S REPORT

May 30, 2000

Mr. G. Brian Zins, Director
Montana Medical Legal Panel
2021 Eleventh Avenue
Helena, Mt. 59601

I have audited the accompanying statement of assets, liabilities, and surplus arising from cash transactions of the Montana Medical Legal Panel as of December 31, 1999 and 1998, and the related statement of revenues collected, expenses paid, and changes in surplus arising from cash transactions for the two years then ended. These financial statements are the responsibility of the management of the Montana Medical Legal Panel. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the Montana Medical Legal Panel's policy is to prepare its financial statements on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, revenues and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and surplus arising from cash transactions of the Montana Medical Legal Panel as of December 31, 1999 and 1998 and its revenues collected, expenses paid, and changes in surplus for the two years then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued a report dated May 30, 2000 on my consideration of the Montana Medical Legal Panel's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.


Henry Fenton
Certified Public Accountant

**MONTANA MEDICAL LEGAL PANEL
STATEMENT OF ASSETS, LIABILITIES, AND SURPLUS
ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>
ASSETS		
Current assets:		
Cash in bank	\$394,095	\$42,660
Accounts receivable	-	269
	<u> </u>	<u> </u>
Total current assets	<u>\$394,095</u>	<u>\$42,929</u>
 LIABILITIES AND SURPLUS		
Surplus	<u>\$394,095</u>	<u>\$42,929</u>

See accompanying notes to financial statements.

**MONTANA MEDICAL LEGAL PANEL
STATEMENT OF REVENUES COLLECTED, EXPENSES PAID, AND CHANGES IN SURPLUS
ARISING FROM CASH TRANSACTIONS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>
Income:		
Assessment fees	\$951,102	\$497,050
Interest income	4,311	6,231
Miscellaneous income	812	541
Total income	<u>956,225</u>	<u>503,822</u>
Expenses:		
Administrative	219,630	175,704
Panelist hearing time	99,258	97,958
Panelist preparation and travel time	53,934	53,948
Panelist travel	69,382	66,829
Temporary personnel	3,198	8,916
Meeting rooms	7,587	9,233
Records reproduction	46,996	44,143
Postage	18,208	19,067
Medical records and x-rays	14,328	24,510
Telephone	14,643	14,937
Office supplies	4,541	7,084
Panel legal counsel	27,525	33,220
Legal defense	8,660	14,404
Computer software	7,309	3,667
Liability insurance	2,553	252
Miscellaneous	7,307	2,950
Total expenses	<u>605,059</u>	<u>576,822</u>
Net income (loss)	351,166	(73,000)
Surplus, January 1st	42,929	115,929
Surplus, December 31st	<u><u>\$394,095</u></u>	<u><u>\$42,929</u></u>

See accompanying notes to financial statements.

**MONTANA MEDICAL LEGAL PANEL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The Panel was established by the "Montana Medical Legal Panel Act", as authorized by Section 27-6-101 and 104 M.C.A. The Panel is attached to the Montana Supreme Court for administrative purposes only, except that 2-15-121(2) M.C.A. does not apply.

The Panel was created to review all malpractice claims or potential claims against health care providers for the purpose of preventing, where possible, the filing of court actions against health care providers and their employees for professional liability in situations where the facts do not permit at least a reasonable inference of malpractice and to make possible the fair and equitable disposition of such claims against health care providers as are or reasonably may be well founded.

Cash Basis

The Panel follows the cash basis of accounting whereby items of expense are recognized as cash is paid and revenues are recognized when cash is received.

Assessment Fees

Annual assessments are levied against licensed physicians, dentists, podiatrists, hospitals, and other health care facilities in an amount sufficient to meet all panel costs. Annual assessments are apportioned among each group of health care providers according to the number of claims brought against each type of provider.

NOTE 2. CASH DEPOSITS

Cash in bank consists of the following deposit accounts:

Valley Bank – checking	\$ 105,060
Valley Bank – savings	100,518
American Federal Savings Bank – checking	30,252
American Federal Savings Bank – savings	4,060
Mountain West Bank – savings	<u>154,205</u>
	\$ 394,095

Individual accounts are insured up to \$100,000.

**MONTANA MEDICAL LEGAL PANEL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

NOTE 3. RELATED PARTIES

G. Brian Zins is director of both the Montana Medical Association and the Montana Medical Legal Panel. The Montana Medical Association bills the Montana Medical Legal Panel for services and facilities provided to that organization. This administrative fee is subject to the approval of the Chief Justice of the Montana Supreme Court. The fee for both 1998 and 1999 was set at \$43,926 per quarter, or \$175,704 per year. The Panel overpaid by one quarter in 1999. The payments in 2000 will be reduced to make up for the overpayment.

NOTE 4. 1999 AND 2000 ASSESSMENTS

In November, 1998, Montana voters approved Constitutional Initiative Number 75 (CI 75). The initiative subjected all increases in taxes, fees, and assessments by governmental entities within the state to voter approval before such increases could become effective. The initiative was later overturned by the Montana Supreme Court. However, before the Court's decision, Panel assessments for 1999 had to be determined and assessment notices mailed. Because CI 75 had not yet been overturned, 1999 assessments were set at the same rate as 1998.

Because Panel costs increased, and because assessments were not increased, the Panel faced a cash shortage before the end of 1999. To address this shortage, Panel assessments for 2000 were mailed in October, 1999 (instead of January, 2000) with the normal due date of April 1, 2000 but with a discount allowed for payment by November 15, 1999. Consequently, approximately \$443,000 of assessments for the year 2000 was received in 1999 and is included in assessment fees income.

The Panel's director also obtained a line of credit with a local bank, allowing the Panel to borrow up to \$75,000 at 9.75% per annum, to be available should the Panel face further liquidity problems. No funds have been drawn on this Note to date.

NOTE 5. LEGAL FEES/LITIGATION

Panel legal counsel fees are incurred for time spent by the Panel's legal counsel in compiling data for and preparing statistical reports pertaining to claims filed, hearings held, disposition of claims subsequent to Panel hearings and assisting the Panel in setting assessments.

Legal defense fees were incurred in responding to two actions brought against the Panel. One case was a civil lawsuit claiming damages resulting from a decision of a review panel in a claim against a health care provider. The Panel filed a motion for summary judgement in state district court asking that the claim against it be dismissed. This motion was granted on April 8, 1999. An appeal to the Montana Supreme Court was dismissed on January 10, 2000. The second case involved an action brought to compel the Panel to obtain medical records from a physician who refused to release them on grounds of confidentiality. The Panel paid a negotiated portion of the claimant's attorney fees and no additional liability in the case is anticipated.

**MONTANA MEDICAL LEGAL PANEL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

NOTE 6. RISK MANAGEMENT

The Panel is exposed to risk of loss primarily through possible errors and omissions pertaining to claims filed with the Panel. This risk is transferred through the purchase of a professional liability policy from a private insurance carrier.

Liability insurance costs reported in 1998 are low because the premium for renewing the Panel's professional liability policy was not paid until 1999 and thus not included in the cash basis figures for 1998.

**HENRY FENTON
CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

May 30, 2000

Mr. G. Brian Zins
Montana Medical Legal Panel
2021 Eleventh Avenue
Helena, Mt. 59601

I have audited the financial statements of the Montana Medical Legal Panel as of and for the two years ended December 31, 1999, and 1998 and have issued my report thereon dated May 30, 2000. I conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Montana Medical Legal Panel's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

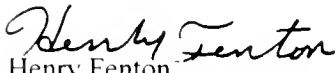
In planning and performing my audits, I considered the Montana Medical Legal Panel's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in

the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be a material weakness.

Status of Prior Year Findings

There were no findings in the prior year's report.

This report is intended solely for the information and use of the legislative audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.


Henry Fenton
Certified Public Accountant

Montana Medical Legal Panel

2021 Eleventh Avenue, Suite 1, Helena, Montana 59601-4890 • Telephone (406) 443-1110 • FAX (406) 443-4042

May 31, 2000
Wednesday

Mr. Scott A. Seacat
Legislative Auditor
P. O. Box 201705
Helena, Montana 59620-1705

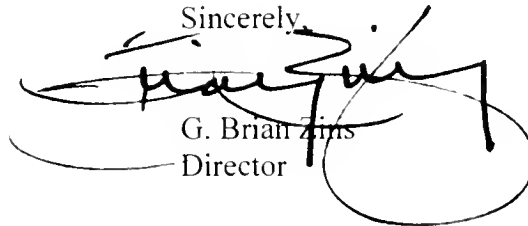
Dear Mr. Seacat:

As Director of the Montana Medical Legal Panel, I am corresponding with you about the recently completed audit of the Panel by Henry Fenton, C.P.A.

We have reviewed the audit and believe it accurately represents the financial records of the Panel for the 1999 fiscal year.

All best wishes,

Sincerely,



G. Brian Zins
Director

